



# Issue Backgrounder

13952 Denver West Parkway • Suite 400 • Golden, Colorado 80401  
[www.IndependenceInstitute.org](http://www.IndependenceInstitute.org) • 303-279-6536

## **What Have They Been Smoking?** *Tax Supporters versus the Truth*

*by Linda Gorman*

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*Amendment 35 would raise the state tax on cigarettes and tobacco products. The money would be redirected to groups working to expand enrollment in Medicaid and CHP, to anti-tobacco programs, and to community health centers.*

*The statements in bold are from the Citizens for a Healthier Colorado Amendment 35 backgrounder, published in September 2004 and prepared for Colorado editors, publishers and reporters. Citizens for a Healthier Colorado supports the passage of Amendment 35.*

**High taxes do not drive smokers to buy their cigarettes in other states or on the black market. Though some may try to buy out of state, “those cross-order purchases generally fade as smokers go back to their usual habit of buying cigarettes at the corner store.”**

Or may be to someone around the corner selling black market smokes. In England, an island with the second highest cigarette taxes in the world, surveys of empty cigarette packs in the litter left after soccer games show that in 1998/1999 only 5 percent of empty packs had not had tax paid on them. By 2001, rates were as high as 41 percent.<sup>1</sup> American smokers can also purchase from Indian reservations and international retailers via the internet. A 2002 population-based New Jersey telephone survey found that internet cigarette purchases grew from 1 percent in 2000 to 6.7 percent in 2002.<sup>2</sup>

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**“Because Colorado’s tobacco tax rate is so low currently, we are the source for the black market in other states.” Amendment 35 would bring our taxes in line.**

Perhaps Amendment 35 advocates can explain why the U.S. General Accounting Office reports that cigarettes have been smuggled into the U.S. from China, Malaysia, Korea, Russia, Latvia, Mexico, Brazil, Paraguay, Uruguay, and the Philippines, even

though Colorado is much more convenient for an American traveler.<sup>3</sup>

**“Smoking-attributable productivity losses...[are] \$218 per each pack of cigarettes sold..”**

If this is true, a pack a day smoker produces productivity losses of \$79,570 a year. In 2002, very high estimates of annual productivity losses were published in the federal government’s Morbidity and Mortality Weekly Report. The federal figures were \$2,278 and \$1,193 for male and female smokers respectively—vastly less than the preposterous figure touted by Amendment 35 advocates.<sup>4</sup>

Community Health Centers provide low cost health care. Community Health Centers charge the taxpayers a very high rate. Although Community Health Centers receive lavish federal subsidies, the Centers still charge Colorado Medicaid roughly \$130 for a basic visit.<sup>5</sup> In contrast, Colorado Medicaid pays private physicians just \$27 for the same service. Private urgent care centers that take cash-paying patients charge only \$100. One physician, whose office is in a community but who is not a “community health center” (because he pays his own way), estimated that his local community health center charged twice as much as he did, even to the most generous private insurance. Community Health Centers are cheap for patients, but extremely expensive for taxpayers, especially compared to other physicians who provide health care for poor people.

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**“CHP+ has provided comprehensive health care coverage to nearly 100,287 children who previously had no access to other coverage...”**

That number comes from the Colorado Community Health Network, the trade association for Community Health Centers. The revised 2004 annual report from the Department of Health and Human Services reported that only 74,144 Colorado

children had ever been enrolled in Colorado's children's health insurance program.<sup>6</sup>

**“Anti-tobacco public education programs have been demonstrated to lower smoking among young people by as much as 40%.” “It is estimated that campaigns to discourage people from starting to smoke result in a decrease of 8 percent in new smokers.” “More than 34 percent of Colorado teens use tobacco.”**

In 2000, an estimated 34 percent of Colorado youth had used tobacco on one or more occasions in the last 30 days. About 25 percent were classified as frequent users, according to the federal Centers for Disease Control.<sup>7</sup>

Since 2000, Colorado has spent almost \$39,000,000 on anti-tobacco education.<sup>8</sup> Studies show that Colorado school children have a strongly negative view of tobacco use. But according to tobacco tax advocates, youth tobacco use is still 34 percent.

Despite the lack of success in spending 39 million dollars, Amendment 35 mandates that an additional \$28 million be spent on anti-tobacco education each year.

**Amendment 35 will “reduce tobacco use--especially among kids.”**

Colorado law currently prohibits the sale or gift of tobacco products to kids. Colorado children currently using tobacco products obtain them illegally. Criminals do not collect state tax. Colorado's low tax rate protects children by keeping the lid on illegal profits. This means that a greater portion of tobacco sales goes through legal channels. Legal sellers are more likely to respect laws restricting tobacco access by minors.

*By increasing the state tax on tobacco products, Amendment 35 makes illegal tobacco sales more profitable.*

By increasing the state tax on tobacco products, Amendment 35 makes illegal tobacco sales more profitable. This will increase the number of illegal

sales. Tobacco will likely become more accessible for children as illegal sellers proliferate.

**“Studies show that, for every 10 percent increase in the price of cigarettes, overall consumption of cigarettes drops 2 percent, and the number of children who smoke decreases 7 percent”**

Between 1997 and 2000, the national price of cigarettes rose by about 70 percent in the U.S. As DeCicca, Kenkel and Mathios pointed out in 2002, if a 10 percent price increase really did decrease youth smoking by 7 percent, “less than 20 percent of high school seniors should still smoke.”<sup>9</sup> In fact, the 2002 National Youth Tobacco survey suggested that 28 percent of high school students had smoked a cigarette within the last 30 days.

If price really had the effect that Amendment 35 supporters say it does, why mess around with a paltry tax of \$0.64 a pack? Why not eliminate smoking entirely with a new tax of \$20.00? The reason is that even tobacco tax advocates know that the results that they cite on the relationship between price and smoking behavior do not include black market sales. For the most part, research on smoking behavior only tracks legal sales.

A smoker who switches to black market purchasing when taxes are too high makes legal cigarette sales go down. This has traditionally been interpreted as a reduction in smoking. In fact, smoking hasn't changed. When researchers have tried to take black market effects into account, they conclude that increased taxes have a smaller effect on smoking behavior than studies using legal sales would indicate.

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## Endnotes

<sup>1</sup> Robin Joy. May 2001. "Government suffers penalty of high taxes," *World Tobacco*, 182, p. 12.

<sup>2</sup> M. Hrywna, C.D. Delnevo and D. Staniewska. 2004. "Prevalence and correlates of internet cigarette purchasing among adult smokers in New Jersey," *Tobacco Control*, 13 296-300.

<sup>3</sup> United States General Accounting Office. May 2004. *Cigarette Smuggling: Federal Law Enforcement Efforts and Seizures Increasing*. GAO-04-641. <http://www.gao.gov/new.items/d04641.pdf>

<sup>4</sup> JL Fellows, A Trosclar, EK Adams, CC Rivera. April 12, 2002. *MMWR*. 51(14). Atlanta, Georgia: Centers for Disease Control and Prevention. pp. 300-303. <http://www.cdc.gov/mmwr/PDF/wk/mm5114.pdf>

<sup>5</sup> Rachael Brand. August 11, 2004. "Colorado pediatricians avoiding Medicaid kids." *Rocky Mountain News*, online edition

<sup>6</sup> Center for Medicare and Medicaid Services. August 5, 2004. Revised FY 2003 Number of Children Ever Enrolled in SCHIP by Program Type. <http://www.cms.hhs.gov/schip/enrollment/schip03r.pdf>

<sup>7</sup> Centers for Disease Control. State Highlights, 2002. p. 38. [http://www.cdc.gov/tobacco/statehi/pdf\\_2002/04StateHighlights.pdf](http://www.cdc.gov/tobacco/statehi/pdf_2002/04StateHighlights.pdf). See also Tobacco Information and Prevention Source, National Center for Chronic Disease Prevention and Health Promotion, Colorado Highlights. [http://www.cdc.gov/tobacco/statehi/html\\_2002/colorado.htm](http://www.cdc.gov/tobacco/statehi/html_2002/colorado.htm), or [http://www.cdc.gov/tobacco/statehi/pdf\\_2002/colorado.pdf](http://www.cdc.gov/tobacco/statehi/pdf_2002/colorado.pdf). Data are from 2000 National Youth Tobacco Survey.

<sup>8</sup> State Tobacco Education and Prevention Partnership, September 17, 2003. *Annual Report to the Colorado Department of Public Health and Environment*, Denver, Colorado, p. 2ff.

<sup>9</sup> Philip DeCicca, Donald Kenkel, and Alan Mathois. 2002. "Putting Out the Fires: Will Higher Taxes Reduce the Onset of Youth Smoking?," *Journal of Political Economy*, 110(1), 144-169.

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JON CALDARA is President of the Institute.

LINDA GORMAN is Director of the Health Care Policy Center at the Independence Institute.

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